

Budget Issues Summary

Fiscal Year 2002 Budget Issues

FY 2002 was dominated by a recession-driven revenue shortfall of \$155 million in general funds. The original revenue estimate for FY 2002, including carryover from the previous year, was \$2,108,317,400. Six months into the fiscal year, the General Fund went from a \$64 million surplus to a \$91.4 million deficit, a difference of \$155 million! That deficit was covered with the \$64 million originally left on the table, \$64.1 million in current year budget reductions (negative supplemental), and \$40 million in transfers from the Capitol Endowment Income Fund (\$22 million) and the Master Tobacco Settlement payment (\$18 million). In addition, the Legislature provided a contingency plan for the spring months to allow the Board of Examiners to access up to \$80 million in permanent building funds if revenues continue to miss the mark in the remaining months of the fiscal year.

April revenues came in a disappointing \$60.0 million short of projections, off about twenty percent from the revenue projection of \$303 million. This prompted the Governor's Office to immediately release an advisory to state agencies to freeze hiring and merit increase considerations, and also freeze vehicle and equipment purchases in order to contain costs and maximize year-end reversions to the General Fund. The actual transfers required from the Permanent Building Fund to execute the contingency plan will not be known until year-end closing is complete, perhaps in late July.

<u>Revenue:</u>	<u>Estimate April, 2001</u>	<u>Estimate Feb, 2002</u>
Beginning Balance	\$192.8	\$184.8
FY 2002 Original Estimate (minus 3.1%)	1,935.5	
FY 2002 Revised Estimate (minus 8.1%)		1,824.1
December and January shortfalls		(36.3)
Transfer to Budget Stabilization Fund	(20.0)	0.0
Total FY 2002 Revenues	\$2,108.3	\$1,972.6
<u>Expenditures:</u>		
Total FY 2002 Original Appropriation	\$2,044.3	\$2,044.3
Reappropriations		6.5
Plus Supplementals		13.3
Total Expenditures	\$2,044.3	\$2,063.9
Estimated Ending Balance	\$64.0	(\$91.4)
Major FY 2002 Budget Balancing Actions:		
Statewide budget reduction		\$64.1
Transfer from capitol restoration		22.0
Transfer from tobacco settlement		18.0
Other bills with fiscal impact		1.7
Estimated Ending Balance at Sine Die		\$14.4

April 2001	FY 2002 Revenue Projection of \$1.935 billion after law changes. JFAC left \$64 million on the table at sine die.
July	FY 2001 closed \$14.9 million below projections (including \$6.5 million in reappropriations), reducing the cushion from \$64 million to \$49 million.
August	Governor revises FY 2002 revenue projection downward by \$60.4 million due to the slumping economy, which eliminates the remainder of the \$49 million cushion. Soon after the Governor announces the first holdback of 2 percent (1.5 percent for Public Schools) to cover the remaining deficit and leave room for supplementals. Total holdback \$35.8 million.
September	Revenues come in below revised projection by \$2.3 million.
October	Revenues come in slightly above revised projection by \$0.2 million.

November	Governor announces a second holdback after September and October revenues fail to make up significant ground on revenue projections. An additional one percent holdback of \$19.6 million was initiated on all agencies and institutions including public schools.
December	November revenues are below revised projection by \$9.2 million, prompting the Governor to recommend not transferring \$20 million to the Budget Stabilization Fund (later enacted by the Legislature).
Jan. 2002	Governor's budget recommendation revises the projection down by another \$50.8 million.
January 15	December revenues are below newly revised projections by \$20.3 million, prompting the Governor to issue an advisory to transfer \$22 million from the Capitol restoration, \$18 million from the tobacco settlement payment and to freeze \$80 million in permanent building fund projects.
February	January revenues come in below projections by \$16 million. JFAC officially endorses a lower revenue projection, taking into account December and January shortfalls that total \$36.3 million. JFAC increases the FY 2002 spending cuts from \$55.4 (Governor's recommendation) to \$64.1 million.
February 27	JFAC passes a \$120 million Budget Balancing Plan (HB 701), which transfers \$22 million from the Capitol Endowment Income Fund, \$18 million from the tobacco payment, and authorizes up to \$80 million in transfers from the Permanent Building Fund, if needed, for the balance of the fiscal year.
March 8	February revenues come in \$6.7 million short of projections, off about seven percent from expectations.
April 10	March revenues come in \$4.9 million ahead of projections, about five percent above the month's target.
May 3	April revenues come in a disappointing \$60.0 million short of projections, off about twenty percent from the revenue projection of \$303 million for April. This prompted the Governor's Office to release an advisory to state agencies to freeze hiring and merit increase considerations, and freeze vehicle and equipment purchases in order to contain costs and maximize year-end reversions to the General Fund.

Fiscal Year 2003 Budget Issues

The fiscal year 2003 budget was based upon a revenue projection of 2.7 percent. In order to develop a balanced budget within that austere revenue estimate, the Legislature enacted permanent base reductions for all state agencies and institutions varying from 2.5 percent to 14.9 percent. There was no funding for inflationary increases and no funding for any salary increases. Overall, the FY 2003 General Fund appropriation is a 1.3 percent *reduction* from the final FY 2002 appropriation. This is the first time *ever* that a General Fund Budget for the coming fiscal year was lower than the current fiscal year. The number of full-time state employees was also reduced by approximately 227 positions from the FY 2002 level.

In order to support even this very austere budget, General Fund revenues had to be augmented by transferring \$26.7 million from the Budget Stabilization Fund, \$10 million from next year's tobacco settlement payment, \$7 million from the Permanent Building Fund, \$6.4 million from the Capitol Endowment Income Fund, and \$3 million from the Water Pollution Control Fund. In all, there is \$67.5 million in one-time revenues supporting the \$1,967,865,400 General Fund appropriation for FY 2003; however, there is only \$16.3 million in one-time expenditures. To a significant degree, the ongoing budget is supported by one-time revenues. The following highlights provide more detail about several key areas of the state budget for FY 2003.

Public Schools: The total FY 2003 budget of \$985,513,000 represents a 2.7 percent increase over what public schools will receive from the state in FY 2002. Funding is provided to allow a 3.75 percent raise for teachers with less than 13 years of experience. The appropriation also funds 3.75 percent raises for teachers who earned additional credits and degrees. This budget provides full funding for the Limited English Proficiency, Safe & Drug-free Schools and the Gifted and Talented program, as well as special education funds for training and teacher's aides, and the beginning teacher support program.

The budget also includes \$8.4 million for technology, \$3.3 million for the Idaho Reading Initiative, \$2 million for classroom supplies, and \$4 million for the implementation of achievement standards. The appropriation acknowledges that \$1 million in federal funds may become available for the Idaho Reading Initiative, and \$2 million may become available for achievement standards implementation, and it directs the state department of education to seek such funds to supplement the state's efforts in these areas. The appropriation bill also directs, in Section 20, that \$23.3 million of the discretionary funds available in the FY 2003 budget be distributed early, in July, rather than spread out over the course of the school year, as would

happen normally. On page 1-30 is a detailed comparison of the public schools program distributions for FY 2001 through FY 2003.

College and Universities: The FY 2003 appropriation for the general education programs at the state's four-year college and universities reflects a 9.7 percent *decrease* in General Funds and a 6.7 percent *decrease* in total funds. The decrease is due to a permanent base reduction of \$25,022,500 and elimination of 212 full-time positions as recommended by the Governor. Of this amount, \$1,270,800 was due to a reduction in available endowment earnings.

From the reduced base level, however, a total of \$2.4 million in maintenance of current operations (MCO) funding was added to this appropriation, including \$860,600 for increases in the employer-paid benefit costs for the system's 3,600 employees; \$1,510,100 to fund various non-standard adjustments, most of which (about 90 percent) will cover the costs of occupying various new campus buildings (utilities, maintenance, custodial). The remainder will cover increases in insurance premiums and state controller fees. Also, \$303,700 is being shifted from dedicated student fees onto the General Fund. This is the amount of maintenance and inflationary increases that would normally be carried by student fees. Even with student fees for the next academic year increasing by up to 12 percent, the fund shift is necessary to help the institutions cope with increasing enrollments.

Health and Welfare/Medicaid: The FY 2003 appropriation for medical assistance payments reflects a 4.8 percent increase in general funds and a 6.0 percent increase overall. The key issues in this budget revolved around decisions made during the FY 2002 supplemental appropriation debate and centered on getting control of rising Medicaid costs. The Legislature essentially endorsed the Governor's recommendation in putting together an appropriation for FY 2003 that included the following cost saving initiatives:

- Shortening the period from four days to three days before requiring an independent review of the need for inpatient hospital services.
- Changing the discount to the average wholesale price (AWP) of prescription drugs from minus 11 percent to minus 12 percent.
- Not allowing early refills of prescription drugs until 75 percent of the estimated days' supply has elapsed.
- Requiring prior authorization of prescriptions for adults when exceeding more than four per month.
- Including prescription drugs for the Children's Health Insurance Program in the drug rebate process.
- Managing the utilization of hospital outpatient services to reduce unnecessary visits and expenses.
- Implementing a statewide flat commercial transportation rate and reducing personal travel reimbursement from 35 cents to 10 cents per mile.
- Requiring prior authorization for all durable medical equipment to ensure reasonable purchases and cost effectiveness.
- Managing utilization of x-ray and lab expenses to prevent unnecessary or duplicative tests.
- Paying Medicare rates for physician services.
- Limiting reimbursement for services to persons eligible for both Medicare and Medicaid to Medicaid rates.
- Increasing enrollment in the Healthy Connections Program (primary case management) from 31 percent to 38 percent in fiscal year 2002 and to 68 percent in fiscal year 2003.

Other adjustments to the Medical Assistance Program included delaying full implementation of the Utilization Management Project (UMP) for the developmentally disabled, eliminating the UMP for mental health, and reducing adult dental services to emergency dental care only.

Other Miscellaneous Budget Issues

Capitol Building Restoration: The Legislature chose to delay the Capitol restoration project, due to the uncertain financial situation facing the state. The Legislature had originally appropriated \$32 million in general funds in combination with other revenue sources and bonding authority to finance the \$64 million project. However, as revenue collections consistently missed projections and the budget shortfall intensified, the Legislature found it necessary to take back \$22 million for FY 2002 and \$6.4 million for FY 2003, essentially all of the unobligated cash available in that fund.

The decision to delay work on the old Ada County Courthouse on W. Jefferson Street, which is now state-owned, also affected the restoration timetable. The timetable for the Capitol restoration called for completing a building renovation or new facility at the W. Jefferson property, so that the tenants of the Capitol would have a place to relocate beginning in April 2004, when the interior work on the Capitol was scheduled to begin. The decision to delay any work on the W. Jefferson property delays the interior work on the Capitol another year. The earliest timetable for beginning any work on the interior of the Capitol Building is now April 2005.

Permanent Building Fund Projects: Approximately \$80.0 million in Permanent Building Fund projects was put on hold for FY 2002 as a contingency plan to balance the budget. If revenue collections for the last four months of the fiscal year continue to come in below projections, HB 701 authorizes the Board of Examiners to access up to \$80 million in Permanent Building Fund moneys to transfer to the General Fund. The fiscal note for HB 701 defines the priority sequence and the order in which projects will be eliminated if permanent building funds are needed to balance the budget. That sequence is listed below. The actual transfers required from the Permanent Building Fund to execute this contingency plan will not be known until year-end closing is complete, perhaps in late July.

Project Description & Order of Elimination	<i>Available Funds</i>	<i>Cumulative Total</i>
Department of Corrections: SICI Medical Building	\$ 949,000	\$ 949,000
Lava Hot Springs: Dressing Rooms	382,800	1,331,800
Department of Labor: IAB Major Remodel	890,000	2,221,800
Health & Welfare: State Hospital North Training Center	340,000	2,561,800
Department of Lands: Fire Guard Station	490,000	3,051,800
Idaho State Police: Combine Office Space, Meridian	2,249,000	5,300,800
Commission for the Blind: Seed Funds for New Location	1,500,000	6,800,800
Historical Society: Idaho History Center, Phase II	4,613,000	11,413,800
Statewide Microwave System, Phase III	2,052,000	13,465,800
Idaho Department of Water Resources: New Bldg Planning	300,000	13,765,800
Eastern Idaho Tech. College: Planning Nursing Bldg.	60,000	13,825,800
Eastern Idaho Tech. College: Maint. Bldg. Expansion	233,000	14,058,800
Department of Correction: women's community work center	3,900,000	17,958,800
Idaho State Police: POST Academy, Meridian	2,286,000	20,244,800
North Idaho College: Allied Health/Nursing/Life Sci Bldg.	10,994,000	31,238,800
Idaho State University: Classroom Building	12,177,000	43,415,800
Historical Society: Historical Museum, Phase II	1,000,000	44,415,800
Boise State University: First Building, BSU-West	8,655,000	53,070,800
University of Idaho: Teaching & Learning Center	11,729,000	64,799,800
College of Southern Idaho: Fine Arts Addition	5,402,000	70,201,800
Lewis-Clark State College: Campus Activity Center	\$10,868,000	\$81,069,800

Budget Stabilization Fund: The balance in the Budget Stabilization Fund at the end of this current fiscal year 2002 will be \$53.1 million. Because of the austere budget scenario for fiscal year 2003, the Legislature chose to transfer about half of that balance (SB 1517) to the General Fund to shore up FY 2003 budgets for education. The estimated remaining balance in the Budget Stabilization Fund for FY 2003 will be \$26.4 million.

Idaho Millennium Fund: Due to revenue shortfalls in fiscal year 2002, the Legislature transferred the April tobacco settlement payment, estimated to be \$18 million, into the General Fund rather than the Millennium Fund (HB 701). The projected balance in the Millennium Fund at the end of FY 2002 is \$53.4 million. The Legislature also earmarked tobacco settlement payments in the FY 2003 budget. SB 1517 transfers \$10 million of the expected \$27 million in new payments into the General Fund. The Millennium Fund balance will be approximately \$72.2 million at the end of FY 2003. HB 486aaS was enacted to create the Joint Millennium Fund Committee, which will consider grant applications and recommend funding from the Millennium Income Fund, which is based upon five percent of the market value of the Millennium Fund.